

NBCM-BF-6600-003 Cost Accounting

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1. PURPOSE

This document establishes the policy and supporting procedures that comprise the NBC's activity based cost accounting program and costing methodology.

2. SCOPE

This policy applies to all Directorates/LOBs within the NBC.

3. DEFINITIONS

Activity: A designated work process or task performed within an organization.

Activity-Based Costing: A methodology that measures the cost and performance of services, activities, and resources. Services consume activities and activities consume

resources. Resource costs are assigned to activities based on their use of those resources, and activity costs are reassigned to services (outputs) based on the cost object's proportional use of those activities.

Activity Driver: Measures the frequency or intensity of the demand for activities by services and are used when activity costs cannot be assigned to a single product or service.

Allocation: A method of distributing costs using calculations that may be unrelated to physical observations or direct or repeatable cause-and-effect relationships.

Burdened: This is also defined as "full cost" where direct and indirect costs have been applied to an activity, product, or service.

Captive Costs: Costs of services provided to an NBC Directorate/LOB by another internal NBC Directorate/LOB that are eventually included in the final (burdened) cost of products or services charged to a non-NBC customer. These costs are considered Tier 3a and 3b costs for the NBC's cost model.

Catalog of Services: An important reference guide that identifies and briefly describes all of the NBC's products and services. The services are aligned with the NBC Strategic Plan. The standardization of services and definitions facilitated by the new costing methodology allows the NBC to use a consistent set of terminologies as displayed in the Catalog. This document is also useful for NBC's customer outreach strategy as a means to increase both current and potential customers' awareness and an understanding of the NBC's service offerings.

Common Indirect Activity: Any activity that is performed across all NBC organizations and is not a direct support of a product or service (e.g., administrative tasks to sustain the organization).

Cost Driver: Quantitative assignment/formula for distributing (driving) costs to activities or products and services, which is sometimes referred to as the allocation basis.

Cost Model: A representation of resource costs during a time period that are consumed through activities and traced to products, services, and customers, or to any other object that creates a demand for the activity to be performed.

Data Dictionary: A comprehensive listing of all NBC services and activities compiled by line of business (LOB), including their relationship to key work processes and activities. The Data Dictionary also aligns LOB activities and services with the service offerings identified in the NBC's Strategic Plan. Units of measure for each service are also documented in the Data Dictionary.

Direct Activity: Any activity performed for the benefit of a single, clearly identifiable product or service.

Direct Cost: Any cost incurred exclusively for the benefit of a single, clearly identifiable service, activity, or customer.

Exempt Cost: Non-value added costs that are part of a LOB's financial accounting obligations and expenses but are not related to the costs of doing business and are not included in the costs for products and services. These costs are generally passed from the vendor to the customer, e.g., software licenses. An exempt cost is not incurred as a raw material or otherwise direct ingredient to the product or service being delivered.

Indirect Activity: Any activity performed that is not directly traceable to a single, clearly identifiable service (as distinguished from a Direct Activity).

Indirect Cost: Any cost incurred that is not directly traceable to a single, clearly identifiable service, activity or customer. These costs do not contribute directly to delivering client services, but are necessary for the internal operation of the NBC, Directorates, and LOBs. (See Appendix 1 for examples of indirect activities as defined by the NBC's cost methodology.)

Infrastructure Costs: Costs for executive leadership and administrative costs required to manage the NBC or Directorate on a day-to-day basis. Infrastructure costs are made up of Tier 1, 2, 3a, and 3b categories. These costs are defined in Section 5.3. below.

Internal Revenue Recognition: Cost and revenue attributable to internal activities between NBC Directorates that are accounted for in such a manner as to avoid double-counting when all cost and revenue are totaled for the entire NBC

Labor Cost: Consists of budget object classes 11 (personnel compensation), 12 (personnel benefits), and 13 (benefits of former personnel). Labor costs are derived from labor hours entered each pay period in the timekeeping system by employees.

Line of Business (LOB): The NBC's formal designation of like products and services by major category.

Non-labor Cost: Consist of costs in all budget object classes except 11, 12, and 13. This includes budget object classes 21 (Travel and Transport of Persons), 22 (Transport of Things), 23 (Rent, Communications, and Utilities), 24 (Printing and Repro), 25 (Other Contractual Services), 26 (Supplies and Materials), 31 (Equipment), 32 (Land and Structures), 33 (Investment and Loans), 41 (Grants Subsidies and Contributions), 42 (Insurance Claims and Indemnities), 43 (Interest and Dividends), and 44 (Refunds).

Resource Cost Data: Data elements pulled in preparation for production of the quarterly cost reports from the NBC's financial accounting systems. This data represents the dollars spent by an organization.

Resource Driver: Measures the frequency and intensity of the demands placed on resources by activity. It is used to assign resource costs to activities or to other resources.

Service: The output product from a set of work processes/activities or the product that the customer receives.

Unburdened: A product or service where only direct costs have been applied.

Unit Cost: Derived cost associated with a single unit of measure underlying a resource, activity, product, or service. It is calculated by dividing the total cost by the measured volume.

Workload Data: Basic quantities of a service for which a cost is derived. This is also known as service units of measure.

4. ROLES AND RESPONSIBILITIES

4.1. The **Chief Financial Officer (CFO)** is the Associate Director, Financial Management Directorate, and is responsible for:

- 4.1.1. Establishing NBC policy and procedures involving cost accounting and the costing methodology used for pricing NBC products and services.
- 4.1.2. Establishing procedures to recognize that all applicable costs are appropriately accounted for and allocated to the appropriate service offerings so that the NBC can ensure full cost accounting for products and services.

4.2. The **Budget Director** is responsible for:

- 4.2.1. Reviewing, approving, and facilitating requests for changes to the NBC's Data Dictionary, including requests for new or revisions to existing activities.
- 4.2.2. Ensuring that the activity codes in the accounting and time and attendance systems are valid and that timekeepers are notified when changes are made.
- 4.2.3. Managing and maintaining the NBC's Data Dictionary and Catalog of Services. This includes updating the dictionary and catalog on a quarterly basis to reflect approved changes to activities and/or services or as a result of reorganizations.
- 4.2.4. Periodically training Directorate staff on accessing, reading, and analyzing accounting and labor reports and other cost data.
- 4.2.5. Maintaining and updating the NBC's cost accounting methodology and supporting software (SAS ABM). This includes the following:
 - Serving as the SAS ABM Administrator.
 - Managing system access (creating accounts for new users, assigning passwords, assigning roles and permissions, and disabling user accounts).
 - Serving as the contact person for all server and license-related issues.
 - Making changes to the cost methodology as approved.
 - Ensuring that the SAS ABM system meets all required certifications and standards of security (e.g., Certification and Accreditation, etc.)

4.3. Associate and Assistant Directors are responsible for:

- 4.3.1.** Implementing and executing this policy and processes within their respective Directorates.
- 4.3.2.** Periodically training both new and current employees on entering the correct activity codes to ensure that labor distribution costs are correct.
- 4.3.3.** Monitoring the accuracy of their Directorate/LOB's financial information through monthly reconciliation of financial data and correction of errors.
- 4.3.4.** Ensuring the accuracy of the NBC's Data Dictionary by initiating change requests for new activities or revisions to existing activities in accordance with the procedures identified in this policy using the Activity Change Request Form included in Appendix 5.
- 4.3.5.** Ensuring the accuracy of activity labor data (both Federal employees and contractors) by periodically reviewing labor data hour reports, verifying staff timesheets, and ensuring individual employee profiles are free of erroneous and/or outdated activity codes.
- 4.3.6.** Ensuring that Directorate timekeepers are actively maintaining individual employee profiles with cost account codes that are error-free and accurately reflect only the work being performed during any given pay period.
- 4.3.7.** Obtaining employee access as appropriate to automated systems necessary for cost management analysis (e.g., timekeeping, accounting, and payroll systems).
- 4.3.8.** Responding to data calls in a timely manner to produce periodic cost reports.
- 4.3.9.** Coordinating all reorganization proposals with the Budget Director to ensure that the impact of the reorganization is accommodated in NBC's cost model.

4.4. NBC Employees are responsible for ensuring that they fully understand the activities and associated cost definitions and for monitoring and properly recording the correct work time and activity codes on their timesheets each pay period.

5. POLICY

5.1. Services and Activities

- 5.1.1.** The NBC cost model provides cost information that is to be used in the development of prices and billable rates for products and services. This cost information will also be used for budget projections, productivity analysis, and performance metrics as applicable and appropriate.
- 5.1.2.** Directorates will use only approved activities and products/services for recording employee labor hours and other direct and indirect costs.

- 5.1.3. To request a change to an existing activity or service or request a new activity or service, the following actions must be taken:
- Complete the "Service & Activity Change Request Form".
 - Send the completed form via email to "cost_allocation@nbc.gov".
 - The information submitted in the change request form will be reviewed by the NBC Budget Director.
 - The final decision or a request for additional information will be communicated directly to the requestor by the NBC Budget Officer.
 - If the change request is approved, the requestor will be notified when the change has been made to relevant systems (e.g., accounting and timekeeping systems, and/or Customer Agreement System (CAS). The appropriate timekeepers will also be notified by the NBC Budget Office of the change if the change affects the timekeeping system.
- 5.1.4. For purposes of communicating with customers about NBC services, the following applies:
- NBC staff and management should use terminology about the NBC's products and services as identified in the Catalog of Services.
 - Directorates will provide the Catalog of Services to current/potential customers as part of the NBC's marketing activities.

5.2. Cost Model

- 5.2.1. The cost model framework depicts how costs are driven from resources (what was spent), to activities (what work was done), to services (what was produced), and then finally to customers (how the services were consumed). This framework is based on the information collected in the NBC's Data Dictionary.
- 5.2.2. The cost model will ensure that all costs, including indirect costs, are accumulated and appropriately attributed to all products and services to ensure compliance with OMB, Department, and other regulatory requirements regarding cost accounting.
- 5.2.3. The NBC cost model will capture costs for products and services by line of business. The model is built using a cost modeling software application, SAS ABM, which the NBC has acquired to track and produce cost reports. (See Appendix 2 for a graphic depiction of the NBC's cost model). The cost model is made up of three parts:
- **Resource Module:** Represents how much the NBC has spent in the fiscal year. It represents the General Ledger (GL) structure of the NBC's financial systems. The resource module outlines expenditures of each Directorate as a whole, and captures the expenditures of each division (and the branches within the division) and their budget object class categories.
 - **Activity Module.** Where the total costs of the activities for each LOB are captured. It contains each LOB's direct, indirect, and infrastructure costs. The costs of the activities module are derived directly from the resource module.
 - **Service Module.** The final stage in the cost model where the direct activity costs are accumulated in the services that they benefit. The

LOB will be able to see the total costs of the services that they provide, as well as the costs of their sub-service offerings. The service costs are then driven to the customer accounts where the LOB will be able to view the service costs directed towards the DOI (bureaus), NBC LOBs, and external customers.

5.3. Infrastructure

5.3.1. There are four infrastructure categories in NBC's cost model as described below:

5.3.1.1. Tier 1: NBC Infrastructure Costs

- Represents the executive leadership and administrative costs required to manage the NBC. Tier 1 includes only the Office of the Director (including those resources from the Solution Coordination Office which are not directly charged to a specific LOB) and the Budget Division and Audit Liaison Office in the Financial Management Directorate.
- Because each LOB indirectly benefits from the activities performed by NBC's executive leadership, each LOB shares the cost.
- For budget formulation, determining the Tier 1 allocation to each LOB is based upon the percentage amount of total direct and indirect costs that each LOB incurred or obligated during the preceding fiscal year less exempt costs as calculated in the cost model. Only cost amounts recorded in the financial accounting system by the last day of the fiscal year will be used. Note that the expenditures and de-obligations recorded after September 30 of the fiscal year will not be included.
- Each LOB's share of the Tier 1 cost is then reallocated proportionately each quarter to LOB products and services (as identified in the Data Dictionary) based on the total direct costs less exempt costs for each distinct product or service as calculated in the cost model. (See Appendix 3 for a graphic depiction of how these costs are distributed.)
- Tier 1 assessment costs should be obligated using budget object class 92, reporting category "T1", and assigned an "ELIM" Vendor Code ending in TR1. The combination of these account code elements will indicate that the cost associated with this agreement should be allocated as mentioned above.

5.3.1.2. Tier 2: LOB Infrastructure Costs

- Represents the managerial and administrative costs required to manage and operate a LOB. Tier 2 is comprised of the following two cost categories:

- ✓ **Indirect Labor:** Includes labor costs of management and staff that do not contribute directly to delivering services, but are necessary for the internal operation of the LOB. As such, they are a necessary cost of doing business and facilitate the LOB's ability to deliver services to its clients. Examples of indirect labor costs include the time that managers spend on performance reviews of their employee, staff time spent performing administrative duties (e.g., scheduling meetings, preparing travel documents, etc).
- ✓ **Indirect Non-Labor:** Includes expenses that do not contribute directly to delivering client services but are part of a LOB's operational costs. These include, but are not limited to, expenses such as supplies and materials, rent, travel, contracts, equipment, and printing. It is important to note that if any of these costs directly support a work activity that directly supports a product or service, e.g., contract staff to process financial transactions, then these costs **must** be attributed to that applicable activity, otherwise, the costs would be misallocated as Tier 2 costs and distributed proportionately across all activities as described below, skewing the true cost of a product or service.
- The purpose of the Tier 2 allocation is to distribute the cost of indirect labor and non-labor costs to the products and services that received the benefit. Since each LOB service indirectly benefits from the indirect labor and non-labor costs, each product or service must share the cost. (See Appendix 3 for a graphic depiction of how these costs are distributed.)
- There are two parts to the Tier 2 allocation:
 - ✓ **Consolidation.** In the consolidation step, all indirect labor and non-labor costs are accumulated in one cost account per LOB.
 - ✓ **Activity Distribution.** During the activity distribution, Tier 2 costs are distributed to each of the LOB's direct activities by calculating each activity's percentage of total direct cost of the entire LOB. Thus, the direct activities are fully burdened with Tier 2 costs.
- For budget formulation purposes, the allocation of Tier 2 costs varies by Directorate.

5.3.1.3. Tier 3a: Negotiated Captive Costs

- Tier 3a costs are for services provided from one LOB to another LOB where the services provided, service level, and price are negotiated. The direct beneficiary of the

service can be either an NBC Directorate or customer. Examples of Tier 3a costs follow:

- ✓ The IT LOB hosting costs for the Federal Financial System (FFS) for the Financial Management (FM) LOB. FFS is a product/service that the FM LOB provides to its customers. Hosting services and costs for the application are negotiated between IT and FM. The end beneficiary of service is a customer.
- ✓ Training and FM LOBs negotiate an agreement for delivery of a technical training class for FM employees. The FM LOB is the direct beneficiary since the training is delivered to LOB employees.
- There are two parts to the Tier 3a allocation within the Cost Model:
 - ✓ **Consolidation.** All of a LOB's Tier 3a charges from other LOBs are accumulated in a cost account. Tier 3a charges are determined during the budget formulation process.
 - ✓ **Activity Distribution.** The Tier 3a cost account is distributed to specific LOB's direct activities that benefit from the Tier 3a cost. Thus, only the selected direct activities are fully burdened with Tier 3a costs. For example, the FM LOB might distribute the hosting cost from the IT LOB to only three system-related direct activities. The assignment of Tier 3a costs to direct activities is determined by the LOB on a case-by-case basis.
 - ✓ **Coding in the Corporate Accounting System.** When obligating costs for a Tier 3a agreement, the service receiver should use an activity code (direct or indirect) and budget object class code that best describe the purpose of the work being performed. Both revenue and obligations for Tier 3a costs should utilize an ELIM Vendor Code ending in T3A.

5.3.1.4. Tier 3b: Assessed Captive Costs

- Tier 3b costs are indirect costs associated with corporate-wide services such as accounting, human resources, and facilities management. These are organization sustaining costs that do not directly support a specific service or customer.
- Tier 3b assessment levels are approved by the Senior Leadership Team and are not negotiated individually with each LOB.
- Tier 3b assessments are distributed using algorithms that most accurately reflect the service being provided. In instances where the service is also provided through the central bill, the same algorithm is used for distribution

among NBC LOBs. For example, Administrative Operations provides facilities management support to LOBs located at the Main Interior Building. Costs are allocated based on each Directorate's percentage of building population.

- All "policy" related activities performed by single positions (e.g., CFO, CIO, HR, etc.) are also considered Tier 3b costs.
- There are two parts to the Tier 3b allocation within the cost model:
 - ✓ **Consolidation.** All of a LOB's Tier 3b charges from other LOBs are accumulated in a cost account. Tier 3b charges are usually determined during the budget formulation process.
 - ✓ **Activity Distribution.** The Tier 3b cost account is proportionally distributed to each of the LOB's direct activities by calculating each activity's percentage of total direct costs less exempt costs of the entire LOB as calculated in the cost model. Tier 1 organizations do not receive Tier 3b charges.
 - ✓ **Coding in the Corporate Accounting System.** Obligations created to pay for Tier 3b assessments should be coded to the reporting category "T3", utilize budget object class 92, and assigned an "ELIM" Vendor Code ending in T3B. This combination of account code elements will indicate that the cost associated with this agreement should be allocated as mentioned above.

5.3.2. Determination of Tier 3a versus Tier 3b Costs

- Whether the service cost is negotiated between customers or is assessed determines whether a charge is considered Tier 3a or Tier 3b. Negotiated costs are Tier 3a and assessed costs are Tier 3b.
- A reference table of the tier categories can be found in Appendix 6, Table 6-1. The table does not include Tier 2 since these costs are incurred and allocated within each directorate.

5.4. Direct Activity Cost Process

- 5.4.1. Direct costs are clearly and easily traceable to a single activity. This includes an employee's time that is directly charged against an activity when the activities are performed. Costs incurred in order to perform an activity may also include non-labor costs, e.g., contract costs for performing a specific task/activity.
- 5.4.2. Direct costs are charged against the appropriate activity when incurred.
- 5.4.3. Direct costs are recorded against the direct activity that received the benefit and require no further allocation. The NBC costing process takes

the individual transactions and accumulates them by direct activity and then by LOB.

- 5.4.4. Since the vast majority of direct costs are labor charges, it is important to ensure that the cost model captures all labor hours (both Federal employees and contractors) where the unit of measure is the level of effort. Otherwise, the service unit cost will be overstated. This can be accomplished by having the contracting officer amend the contract to require the contractor to provide labor hours by service performed as part of the monthly vendor billing process.

5.4.5. Leave

- 5.4.5.1. Leave represents the time employees are on any paid type of leave, including personal time off, sick time, holidays, excused leave, etc.

- 5.4.5.2. Leave is considered a direct activity (LV). It will be distributed to products and services it benefits because it directly benefits the products and services that the NBC employee supports.

- 5.4.5.3. During the activity distribution, costs in activity LV will be based on direct Federal labor dollars for each LoB. This involves calculating each activity's percentage in Budget Object Classes 11, 12, and 13 as a percentage of total direct cost in BOC 11, 12, and 13 of the entire LOB.

5.4.6. Compensatory and Credit Leave Hours

- 5.4.6.1. When an employee is working on a project that will earn them Compensatory or Credit Leave hours, the employee should code his or her time to the direct activity that they are performing to earn these hours.

- 5.4.6.2. When an employee redeems a Compensatory or Credit Leave hour, he or she should code this time to the direct Take Leave (All Types) reporting category "LV"

- 5.4.6.3. *Special Circumstances:* Certain LOBs may benefit from coding redeemed leave hours to the direct activity that was performed when the hours were earned in order to correctly assess a customer's total cost. This may be the case in an LOB that uses Time and Material agreements, has charge-backs, or performs transactional based services for its customers. Coding the hours this way is acceptable in the event that it does not compromise the accuracy of the data being entered into Quicktime.

- 5.4.6.4. Aviation Management employees shall code their credit/comp time used directly to the activity under which it was originally earned. The reason for this special exception is due to system interfaces with the Aviation accounting application.

5.4.7. Relocation Costs

- 5.4.7.1. When the NBC relocates an employee to a different location, all cost associated with this relocation should be coded to Common Indirect Reporting Category C4.

5.4.8. Awards

- 5.4.8.1.** When giving monetary awards to NBC employees (NBC BOC 115B), all costs associated with these awards should be coded to Reporting Category LA.

5.5. Exempt Costs (formerly named "Pass-through Costs")

- 5.5.1.** Exempt Costs are non-value-added costs that indirectly support the delivery of NBC products or services. Exempt costs enable the use of a delivered product or service (e.g. COTS Software Licenses to support an NBC-developed application) or support the delivery of a service (e.g. customer contract values for acquisition services). An exempt cost is not incurred as a raw material or otherwise direct ingredient to the product or service being delivered. Exempt costs are not included in the Directorate/LoB cost base for calculation of Tier 1 or 3b indirect assessments and are not included in unit cost analysis. The exception is the instance where a Directorate receives its funding as an appropriated line item and exempt costs are included in unit cost analysis, but not indirect cost assessments as the full cost of service delivery is already funded by direct appropriation.
- 5.5.2.** Exempt costs are identified in the accounting system using activity codes that have been designated within each line of business.
- 5.5.3.** The designation of an expense as an exempt cost must be approved by the Budget Director. To request an expense to be exempt, the following actions must be taken:
- Complete the "Exempt Cost Request Form" as shown in Appendix 4.
 - Send the completed form via email to "cost_allocation@nbc.gov".
 - The information submitted in the change request form will be reviewed by the NBC Budget Director.
 - The final decision or a request for additional information will be communicated directly to the requestor by the NBC Budget Officer.
- 5.5.4.** Approved exempt costs will not be reported in the cost reports.

5.6. Applying Costs to Services

- 5.6.1.** Once all the allocations described above are completed, all applicable costs are divided into two main categories and five subcategories by LOB as follows:
- Direct Costs: Direct Captive Costs and Direct Costs
 - Indirect Costs: Infrastructure Costs, Common Indirect Costs, and Indirect Captive Costs

See Appendix 6, Table 6-2 for a description of the relationship between the subcategories and activities.

- 5.6.2. The final step of the allocation process applies the activity costs to the products and services based upon the cost of direct activities. This is performed in two steps: (1) application of the direct costs, and (2) application of the indirect costs. By performing these steps separately, LOBs are able to review the direct cost of providing a service from the indirect cost of providing a service. This provides the LOB with different categories of costs and allows the LOB to examine each of these cost categories to identify opportunities for efficiencies and savings, as well as the ability to benchmark the cost categories with similar Federal or private sector services and service providers.
- 5.6.3. The final step is to combine the total direct service cost and the total indirect service cost to result in the total burdened cost to provide a particular service.
- 5.6.4. Once the total burdened costs are derived, then the total costs for a specific product or service are divided by the total units of measure to derive the unit cost.

5.7. Recognition of Internal Revenue

- 5.7.1. Cost and revenue attributable to internal activity between NBC Directorates is accounted for in such a manner that allows a full picture of cost and revenue by Directorate but is eliminated from the consolidated NBC cost and revenue reports so as not to overstate NBC's total revenue.
- 5.7.2. Directorate-specific internal vendor codes have been established in the corporate accounting system and customer agreement system as identified below. Each Directorate has its own vendor codes. These codes are housed in the corporate accounting system's Vendor Table and CAS under the "Vendor Code/Customer Number" field. See Appendix 6, Table 6-3, for a detailed description of vendor codes and their association to the type of Tier agreement.
- 5.7.3. Internal fixed price customer agreements are to be established for all Tier 1, Tier 3a, 3b, and 3x activity. The agreement number will be constructed so that the agreements are identified as internal NBC agreements. An internal vendor code will also be used on these agreements to identify the agreement initiator so that periodic billings/collections can be properly recorded.
- 5.7.4. The Accounting Operations Division, Financial Management Directorate, must carefully review the Intra Agency Agreement and use the appropriate accounts and vendor codes to record/post the revenue to ensure that revenue is recorded to the correct Directorate for subsequent costing.

5.8. Internal Transfer of Revenue (Tier 3x)

- 5.8.1. Tier 3x agreements capture internal activity that meets the following criteria: *"Services that a customer could procure from a Directorate independently."*

- 5.8.2. Tier 3x agreements eliminate the need to create Standard Voucher (SV) documents to move revenue between Directorates for accurate revenue accounting and to move central bill revenue from the central point of collection to each Directorate.
- 5.8.3. The **Internal Service Provider** under a Tier 3x agreement provides the service that a customer could procure independently. The provider is responsible for creating each Tier 3x agreement.
- 5.8.4. The **Internal Service Receiver** under a Tier 3x agreement is providing service to the customer and has negotiated the provisions of the agreement with that customer. The service receiver is responsible for signing the agreement and adding applicable accounting data for billing purposes.
- 5.8.5. Activity code "ZZ" and budget object code 92 should be used for cost accounting purposes on all Tier 3x agreements. Costs coded to "ZZ" are eliminated from the future tier distribution calculations and are excluded from the cost model.
- 5.8.6. The Budget Office is responsible for ensuring that adequate budget authority is available within the service receiver's operating plan to allow billing on behalf of the service provider. The Budget Office will serve as the "Service Receiver" for central bill transfer agreements to ensure that agreement amounts reconcile to bureau central bill agreements. Finally, the Budget Office will send summaries of central bill revenue to each Directorate for use in creating central bill transfer agreements.
- 5.8.7. The Accounting Operations Division (AOD), Financial Management Directorate, is responsible for billing these agreements timely and ensuring that collected revenue is recorded correctly. AOD is also responsible for ensuring that SV documents requesting transfer of revenue for Tier 3x activity are **not** processed.
- 5.8.8. Vendor codes have been established specifically for Tier 3x agreements. These vendor codes should be used by the service provider when establishing the agreement in CAS. The central bill vendor code should be used on all central bill revenue transfer agreements. Program code NTT3X should be used when creating Tier 3x agreements in CAS (excluding central bill).
- 5.8.9. Only one **Central Bill Transfer Agreement** should be created by each Directorate. The revenue account used for central bill revenue transfer should be structured as to allow simple reconciliation with central bill revenue estimates published in the NBC's annual budget submission and provided to each bureau as supporting documentation. Activity codes used in revenue accounts should relate to the service being provided and should not use the "ZZ" activity code. For example, if LoB A has a signed agreement with BIA for \$100K of services and LoB B is providing \$50K of those services to BIA, LoB A must transfer \$50K of revenue to LoB B in order to complete the transaction. LoB B must create a Tier 3x agreement with LoB A for LoB A to transfer the \$50K of revenue. The vendor code for this agreement should be ELIMT3X. In order to pay the agreement, LoB A should obligate \$50K of cost to Reporting Category ZZ which will be excluded from the cost model and cost reporting process.

5.9. Assigning Time

- 5.9.1** It is the responsibility of each NBC employee to only assign time to an activity that corresponds with the organization that they are in, even if they are performing work for another organization. The agreements discussed in Section 5.7 above provide for a Tier 3a or 3b assessment to be used to transfer costs necessary from one Directorate to another. There is an exception for employees on detail, in which a modified or expanded agreement may be needed.
- 5.9.2.** If an employee assigns time to an activity code that does not correspond with their Directorate, the hours assigned will default to the Default Payroll (C3) activity.
- 5.9.3.** SCO staff will be assessed in Tier 1. If a SCO employee is supporting a LoB, and performing indirect work, he/she should assign his/her time to an indirect activity and there should be a separate Tier 3a agreement for their salaries and benefits to that LoB. Only in special circumstances when SCO staff is supporting a LoB doing direct mission work, that staff will assign their time to an SCO organizational code established in a set of LoB direct activities that reflect the work actually being performed, and the LoB will be assessed via a Tier 3a agreement.

5.10. Reporting

- 5.10.1.** Reports providing data on the total costs, including unit costs of products and services, will be prepared on a quarterly basis.
- 5.10.2.** Quarterly cost reports will be produced by line of business (LOB) and not by NBC Directorate. The reports will include costs of all products and services offered by the LOB even if those costs are captured in another Directorate.
- 5.10.3.** Quarterly cost reports will only reflect those expenses which have been posted in the accounting system. Expenses as defined for the NBC's costing methodology include the following:
- Obligations – the full amount for contracts, services, and agreements for other goods where an obligation is established in the accounting system as a result of a procurement request or contract award
 - Credit card purchases when posted
 - Travel costs when vouchered
 - Tier 1, 3a and 3b agreements – the full amount of the agreement that is identified by internal vendor codes as Tier 1, Tier 3a, or 3b. Agreements which have not yet been approved and entered into the accounting system will not be included or estimated in the quarterly costs reports.
 - Payroll accruals

Amounts for such things as default payroll and transactions that do not appear in the accounting systems will not be input into the cost model.

- 5.10.4.** It is important for Directorates to prepare and process financial/obligating documents in the accounting system in a timely manner in order to ensure that each quarter's cost reports accurately reflect all costs. These costs will not be accrued each quarter and must be entered in the accounting system to be included in the quarterly cost reports.
- 5.10.5.** In preparation for production of the quarterly cost reports, expenses recorded in the financial accounting systems will be provided to Directorates for review. Workload data will be collected each month. The expense data will be collected directly from the NBC's financial systems. The workload data will be collected directly from each LOB.
- 5.10.6.** Directorates are responsible for reviewing monthly expense reports from the accounting system to ensure that expenditures/costs are properly recorded and charged. Failure to properly charge expenditure data will result in inappropriate and inaccurate cost displays for products and services.
- 5.10.7.** Directorates should review the monthly cost data for the following:
- Ensuring that expenditures are properly posted to each NBC Directorate's account.
 - Reviewing charges, including contracts and credit card billings, to ensure that those costs that directly support a specific activity are in fact, charged to that activity. Otherwise, such charges will be considered Tier 2 charges and allocated to each activity as described above.
 - Reclassifying credit card charges via the Electronic Accounting Government Ledger System (EAGLS) within 90 days of posting. Aviation Management employees must route any reclassification of credit card charges to the Boise Finance office as an automated interface to EAGLS does not exist for AMS.
 - Notifying the Accounting Operations Division to correct non-credit card charges in the accounting system where such charges directly support an activity.
 - Reconciling and allocating default payroll costs to the correct activity code within 10 business days after the close of each pay period.
- 5.10.8.** Directorates are responsible for making corrections to their respective monthly cost data identified by the Cost Accounting Team and through the monthly review of resource cost. Corrections that are made in the accounting system will be posted in the quarter in which those corrections and changes are made, e.g., changes identified on the monthly resource cost data for the 3rd month of a quarter that are corrected in the 1st month of the next quarter will be reflected in that latter quarter's cost report. This same rule applies to corrections of workload data.
- 5.10.9.** The following reflects the reporting deadlines:
- 10th calendar day of each month – Each LOB will complete, review, and make necessary corrections to the financial data (obligations and expenditures) recorded in the accounting systems.
 - 15th calendar day of each month – Each LOB will submit all workload data and activity drivers to the Budget Director for input to the cost model.

- 30 business days after the end of each quarter – Final quarterly cost reports will be prepared and distributed to each LOB and NBC senior management.

5.11. Online Cost Accounting Training

- 5.11.1. All new NBC employees are required to take the NBC Cost Accounting Training that is available through DOI University.
- 5.11.2. This training will ensure that all new employees understand the value of the NBC's cost accounting program and how to correctly code their time in QuickTime. New employees will not be given a Quicktime ID until they successfully pass the course and present the certificate of completion.

5.12. Full Cost Recovery

- 5.12.1. Regardless of the fund under which the NBC executes, e.g., Working Capital Fund or Interior Franchise Fund, it is NBC policy to fully recover all costs of operation for each product and service during a fiscal year.

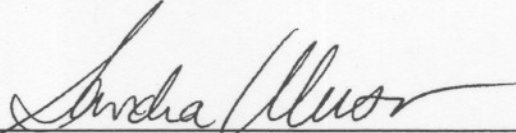
6. AUTHORITY/REFERENCES

- SFFAS 4, Managerial Cost Accounting Concepts and Standards for the Federal Government.
- NBC Data Dictionary
- NBC Catalog of Services

7. EXCEPTIONS, LIMITATIONS

When a conflict with a higher-level policy or regulation exists, the higher level policy will take precedence.

8. APPROVALS



Associate Director, Financial Management Directorate

3/24/2008
Date



Version	Date	Description of Revision/Update	Distribution
1.0.0	7/6/06	Initial release	NBC Senior Leadership Team
1.1.0	11/1/06	FY07 Release	NBC Senior Leadership Team
2.0.0	3/12/06	FY07 Update	NBC Senior Leadership Team
2.1.0	3/14/08	Policy updated to better describe/define Tiers and provide additional guidance on Tier accounting and reporting. Determination of annual Tier distribution methodology changed from prior year revenue to prior year cost expenses as identified in the cost model.	NBC Senior Leadership Team

APPENDIX 1

Indirect Costs

An indirect cost is any cost incurred that is not directly traceable to a single, clearly identifiable service, activity, or customer (all other costs). The activities of indirect costs are typically referred to as "common indirect" or "organization sustaining" activities. They do not contribute directly to delivering client services, but are necessary for the internal operation of the NBC, Directorates and LOBs. As such, they are a necessary cost of doing business, and facilitate the NBC's ability to deliver services to its clients. An example of indirect cost is the invoicing for procurement customers.

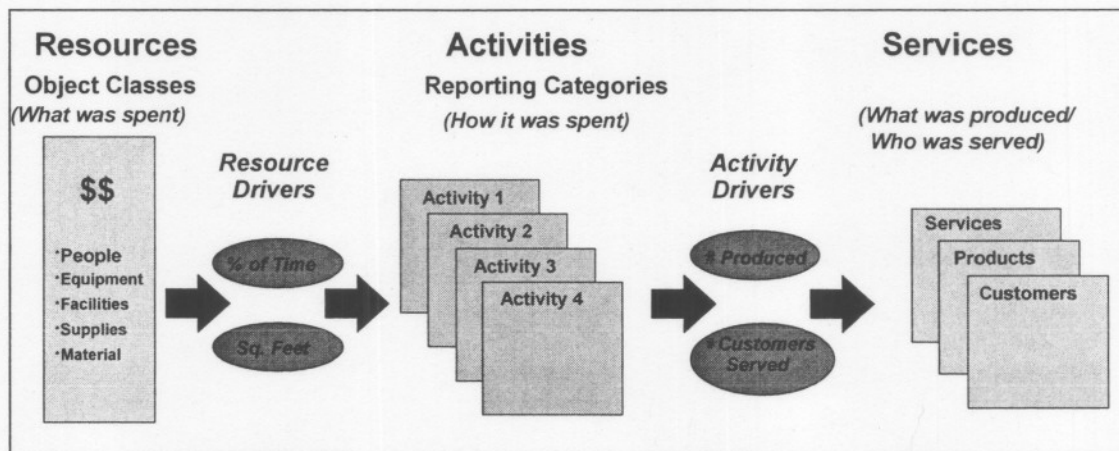
Other examples of indirect activities include, but are not limited to, the following:

- Participate in Compliance Management
- Perform Budget Formulation and Execution Duties and Cost Accounting Duties.
- Perform NBC Strategic and Business Planning
- Participate in Special Projects
- Provide Litigation Support
- Enhance Employee Professional Development
- Perform EEO Duties
- Oversee LOB/Division/Branch/Program
- Perform Administrative Functions
- Perform Customer Relations
- Ensure Continuity of Operations
- Respond to FOIA, Privacy and Information Quality requests
- Perform Official Union Activities
- Perform Non-Official Union-Related Management Duties
- Perform Contingency Management
- Participate in Quality Management Program
- Prepare Cost Proposals
- Support NBC FBMS Application
- Sustain the Organization
- Default Payroll

The indirect costs for "Sustain the Organization" are for items such as supplies, materials, equipment, travel charges, and rent. Default Payroll is to capture cost that defaults. No labor is allowed to be charged to either of these reporting categories.

APPENDIX 2

ABCM Model Cost Flow Diagram

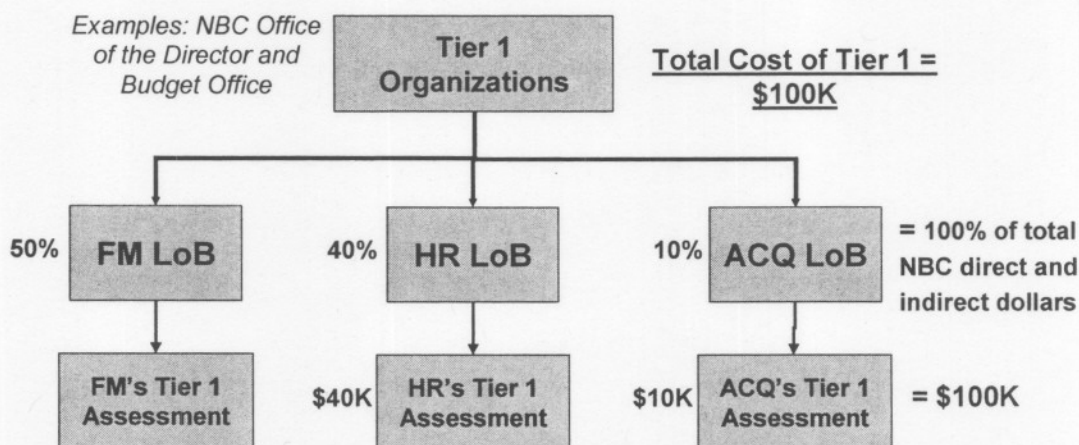


APPENDIX 3

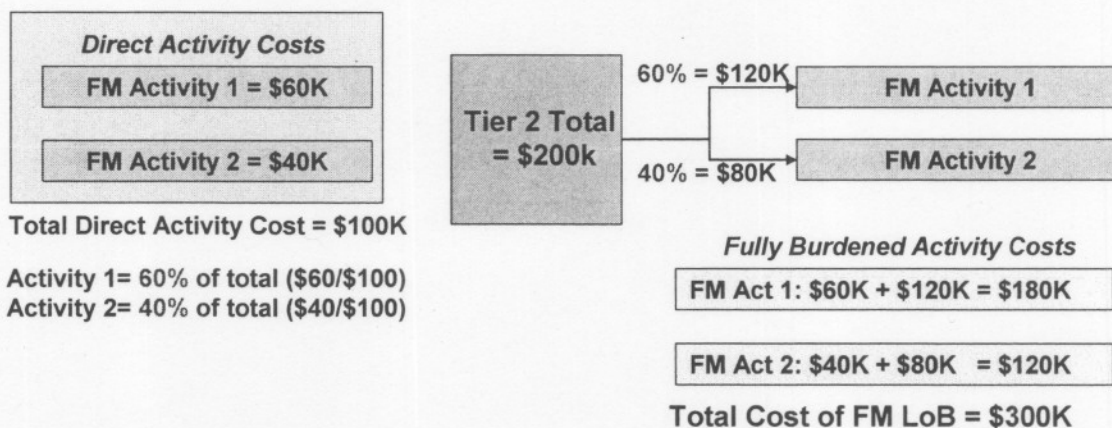
Infrastructure Allocation

Tier 1 NBC Infrastructure represents the executive leadership and administrative costs required to manage the NBC. The total cost of Tier 1 is proportionally distributed to each of the NBC LOB's by their percentage of total costs as calculated in the cost model. A LoB's total cost includes direct and indirect activities and excludes Tier 1, Tier 3a, Tier 3b, and exempt costs.

Infrastructure – Tier 1



Infrastructure – Tier 2



Tier 2 LOB Infrastructure represents the managerial and administrative costs required to manage and operate a LoB. Tier 2 costs are proportionally distributed to each of a LOB's total direct activity costs.

Tier 1 and 3b assessments are allocated to direct activities of a LoB using the same methodology as Tier 2.

APPENDIX 4

Exempt Cost Identification

The Exempt Cost Identification request form should be used by a Directorate when requesting that a cost be considered exempt for cost accounting purposes.

The form can be downloaded from the NBC Intranet at <https://employee.nbc.gov/Policy/FMD/index.html>

NBC Cost Accounting	
Exempt Cost Identification	
<p>Please identify costs that you believe are part of your organization's financial data, but are not related to services, products or indirect work that your organization is performing. These costs may be considered exempt, and should not be assessed with NBC Tier 1, 2 and 3 overhead. Please complete a separate form for each example of exempt cost identified.</p> <p>Example: The FM LoB purchased licenses, such as Oracle, and the customers paid the LoB for the license at cost. These licenses are not related to the service the FM LoB is providing, thus little to no work was performed on behalf of this license cost.</p> <p>Example: The customers of Acquisition LoB paid for cost of contracts and for procurement services of those contracts. The cost of the contracts are considered pass-through.</p>	
Date:	
Directorate:	
Program:	
Point of Contact:	
Total Identified Cost:	
<p>Description of Cost: Please describe the cost identified and provide justification for why this cost should be considered exempt.</p>	
<p>Source of Revenue: Please describe how this cost is ultimately paid for, and which customer(s) is the payee. Please identify whether you include overhead in the cost charged to the customer(s).</p>	
<p>NBC's Involvement Does NBC perform any work related to this cost? If so, please provide a description.</p>	
<p>Point of Contact</p>	

APPENDIX 5

Activity Change Request

The Activity Change Request form should be used by a Directorate when requesting the addition of a new activity or modification of an existing activity.

The form can be downloaded from the NBC Intranet at <https://employee.nbc.gov/Policy/FMD/index.html>

Activity Change Request Form	
<p>Request for: (please mark one with "x")</p> <div style="display: flex; align-items: flex-start;"> <div style="margin-right: 10px;"> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> </div> <div> Add New Activity Change Activity Title or Definition Delete Activity </div> </div>	
Name of Requester:	
Line of Business:	
Date of Request:	
Describe Activity Change: (if new activity, include definition of the new activity here)	
Reason for Activity Change:	
For New Activity Requests:	
Proposed Activity Title (limit to 30 characters):	
Type of Activity:	
<input type="checkbox"/> Direct <input type="checkbox"/> Indirect	
If Direct Activity, then list the Service(s) this Activity benefits:	
<div> <div style="display: flex; justify-content: space-between;"> <div> <p>For Reviewer to Complete</p> <div style="margin-top: 5px;"> <input type="checkbox"/> Change Approved <input type="checkbox"/> Requested Additional Information <input type="checkbox"/> Change Denied </div> </div> <div> <p>Approved New Activity Title:</p> <div style="border: 1px solid black; height: 20px; width: 100%;"></div> <p>New Activity Code:</p> <div style="border: 1px solid black; height: 20px; width: 100%;"></div> </div> </div> </div>	
Reviewer Name:	
Date Approved/Denied:	
Reason for Approval/Denial and Additional Comments:	
<p>Please allow at least 2 weeks for review. If approved, this change will take effect in FFS, QuickTime and CAS.</p>	

APPENDIX 6

Quick Reference Tables

Table 6-1 – Tier Category Comparison

	Tier 1	Tier 3a	Tier 3b	Tier 3x
End customer receiving direct benefit of service	NBC Directorate	Customer or Directorate	NBC Directorate	NBC Customer
Is the agreement amount assessed or negotiated?	Assessment approved by SLT	Negotiated	Assessment approved by SLT	Negotiated
Cost Category (Service Receiver)	Indirect	Indirect or Direct based on service received	Indirect	Exempt
Reporting Category Code (Service Receiver)	T1	Based on service received	T3	ZZ
Can service be procured independent of NBC?	No	Yes	No	Yes
Budget Object Class code to use for obligation	92	Based on service received	92	92

Table 6-2 – Relationship of Cost Sub Categories to Activity Codes

Cost Sub Category	Activity Codes To Be Used
Direct Captive Costs	Activity can be direct or indirect based on service provided through a Tier 3a agreement.
Direct Costs	LOB direct activity
Infrastructure Costs	LOB uses code "T1" for payment of Tier 1 assessment. T1-funded organization uses appropriate common indirect code.
Indirect Captive Costs	LOB utilizes code "T3" for payment of Tier 3b assessments. T3-funded LOB utilizes appropriate direct or common indirect code.
Common Indirect Costs	LOB uses the "C-codes" as appropriate

Table 6-3 – Directorate Internal Vendor Codes

DIRECTORATE (LOB)	INTERNAL VENDOR CODE			
	TIER 1	TIER 3A	TIER 3B	TIER 3X
Acquisitions Services	ELIM69TR1	ELIM69T3A	ELIM69T3B	ELIM69T3X
Administrative Operations	ELIM65TR1	ELIM65T3A	ELIM65T3B	ELIM65T3X
Appraisal Services	ELIM68TR1	ELIM68T3A	ELIM68T3B	ELIM68T3X
Aviation Management	ELIM67TR1	ELIM67T3A	ELIM67T3B	ELIM67T3X
Financial Management	ELIM66TR1	ELIM66T3A	ELIM66T3B	ELIM66T3X
Human Resources	ELIM64TR1	ELIM64T3A	ELIM64T3B	ELIM64T3X
Information Technology	ELIM63TR1	ELIM63T3A	ELIM63T3B	ELIM63T3X
Training	ELIM62TR1	ELIM62T3A	ELIM62T3B	ELIM62T3X
Office of the Director	ELIM61TR1	ELIM61T3A	ELIM61T3B	ELIM61T3X

Note: These vendor codes are used for activity within the current FFS corporate accounting system only. Transfers between FFS and the Aviation Management or Herndon Acquisitions Branch accounting systems will require the use of existing agency locator codes.